Business Bureau Publications (No. 3)

WARTIME INFLATION IN INDIA

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Published by
THE BUSINESS BUREAU
nerce Department, Allahabad University

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There has recently been much talk about the danger of inflation, and everybody has his own conception of what inflation is according as the problem affects him. Probably no term in the science of economics is used so widely and, at the same time, given such a variety of meanings. In popular sense, the word is used to describe such various developments as the issue of new currency, expansion of bank-credit, increase in Government deficits, rising commodity prices, or mounting costs of living. All of these things are related to inflation, but none of them provides an adequate definition.

Inflation occurs when an increase in currency and credit is in excess of the additional production of real wealth. If the volume of currency and credit increases and the production of real wealth also increases in the same proportion, there is no danger of an inflationary tendency. For inflation to come, there should be firstly, an increase of purchasing power through an expansion of currency and credit and, secondly, the utilisation of increased money incomes for purchases. The volume of money actively bidding for goods and services increases faster than available supply, and as Dr. Goldenwiser of Federal Reserve system puts, "When the growth of national income in money units is greater than its growth in physical units". A recent writer explains, "Inflation is the result of spending—spending which is excessive in relation to the available supplies of goods and services. It is a condition which arises when the rate of expenditure by the people of a country gets out of line with that country's ability to produce. More money is spent, but there is no comparable increase in the supplies of goods and services

in the market place—perhaps even a decrease. The inevitable result is rising prices and increasing costs of living".

Inflation has been described as a "normal hazard of war". As a result of war conditions, a fundamental change comes over the whole economic system. War period involves a great increase in the production of goods and services essential for its successful prosecution. It tends to become a period of scarcity. The supplies of goods and services available for civilian purposes are cut down due to restricted imports, transfer and effective utilisation of factors of production in war industries and the increased requirements of defence services. Also it is a period of rising money-incomes. Most workers are fully employed, many working overtime, and new ones entering the ranks of labour. Money incomes and the rate of spending are always tending to rise while the supply of goods and services available for sale becomes less plentiful. Due to a large number of control measures and restrictions, the forces of demand and supply which maintained the equilibrium of the old competitive economy, cannot be expected to function smoothly. They are bound to experience a considerable amount of friction and time-lag.

By the very nature of things some inflation is always tending to develop in wartime. There is however a great deal of difference between some inflation and a severe inflation, and there is no need to get perturbed at its first sign. One should bear in mind that inflation, so long as it is carefully kept under control is a stimulant — one of the quick and effective ways of diverting resources for the purposes of war.

Bearing these facts in mind, let us turn our attention to India. We have to see whether there is an inflation in the sense of a sharp and continuous increase in the amount of money relatively to the output of

physical goods and services. This involves a two-fold enquiry — the one relating to the monetary expansion and the other relating to the volume of production. In order to be able to visualise clearly the significance of the respective movements, we have made a statistical study of the year 1941-42. For our base period we have taken the year 1938-39. No detailed study after March 1942 has been made owing to the unavailability of statistical data on some aspects of production and monetary expansion.

In estimating the monetary expansion in India, we should take into account the total money in circulation as on 31st March 1939 to be compared with the amount in circulation on 31st March 1942. For purposes of our study we have taken into account the rupee coins and currency notes in circulation. Before proceeding to take the figures of currency notes, we should ascertain the total rupee coins in circulation as at the two respective dates. The total rupee coins in circulation have been officially estimated at Rs. 260 crores in 1920. To this may be added the absorptions of coins till 1941-42 which is Rs. 82 crores thus giving a total of Rs. 342 crores. The final figure is obtained by subtracting from this amount the total returns during this period which are Rs. 182 crores. Thus the net circulation of rupees at the end of 1941-42 can be worked out at Rs. 160 crores. In the same way the rupee coins are estimated at the end of 1938-39 at Rs. 111 crores. We may now compare the respective figures.

	1938-39 (In crores)	1941-42 (In crores)
1. Total rupees in circulation	111	160
2. Total currency notes in circulation	189	410
Rs.	300	570

Thus the currency has expanded during this period by 90 per cent.

Let us now take the volume of production part of our enquiry. There are unfortunately no reliable and sufficient statistical data to measure the extent of the increased production in industry and agriculture. In the absence of a composite index of agricultural and industrial activity one can only rely upon trends of production of particular industries and goods. From whatever data available we have tried to measure the extent of the increase in production. For purposes of measuring the expansion of industrial activity, we have taken the General Index figures of "Capital" Index of Industrial Activity. We have taken the production of the year 1938-39 as the base.

BASE 1938-39=100

1941-42	April	May	June	July	August	Sept.	
	106	109·2	111·3	108·2	107·1	114.9	
	Oct.	Nov.	Dec.	Jan.	Feb.	March	Average
	109·2	116·6	114·3	109·5	112.0	109.0	110·5

We have found that the increase of industrial activity as shown by this index comes to 10·5 per cent till the year 1941-42.

The position of agricultural goods also needs close examination. We have taken the output of important Indian crops — foodstuffs as well as commercial crops, under both these periods. We have then constructed a weighted index number, the weights having been assigned in proportion to the output.

Crops		Output in 1938-39	Output in 1941-42	Index No. 1941-42	Weights	Weight Index
Jute Bales of (400 lb.)		6696	5423	81	7	567
Cotton	,,	5120	5980	117	5	585
Rice	Tons 000	23567	25563	108	24	2592
Wheat	,,	9927	10070	102	10	1020
Sugar cane	,,	4090	3957	97	4	388
Ground nut	,,	2990	2493	83	3	249
Linseed	,,	437	357	82	·5	41
Rapeseed and Mustard	,,	917	1109	121	1	121
					54·5	5563

Agricultural Index Number 5563/54. 5 = 102

We may now construct a composite index number. Since agriculture is our most predominating industry, we should assign to it its due importance. We have given the weights of 5 for agriculture and 1 for industry on the basis of the rough estimates made by Sir M. Vishvesraraya in his "*Planned Economy for India*," about the per-capita income from agriculture and industry respectively.

The composite index number :

$$\begin{array}{l} 102 \times 5 = 519 \\ 110\cdot5 \times 1 = 110\cdot5 \\ \hline \qquad\quad 620\cdot5 \end{array} \qquad \frac{620\cdot5}{6} = 103\cdot4$$

Production of other important industrial goods like munitions, cement, engineering products, leather goods chemicals, cottage industry wares and a number of others have considerably increased. The statistics for them are not available. Taking in view the orders of the Supply Department, the important part these industries are playing in India's war economy, and their significance in India's total national income, we may assign an estimate of 10% to such increases. Adding this up with our composite index number, we find a total increase in production by 13· 4%.

The broad facts which result from the above analysis are that while currency has expanded by 90%, the increase in production has come only to 13%. Along this we find a rise in prices as shown by the Calcutta and Bombay wholesale price index number both of them corrected on 1938-39 average.

BASE 1938-39=100.

1941-42	Bombay Wholesale Number	Calcutta Wholesale Number
April	122	134
May	123	137
June	127	144
July	140	158
August	144	159
September	145	157
October	152	159
November	162	165
December	180	162
January	184	163
February	194	161
March	197	161
Average 1941-42	156	155

The simultaneous rise in the wholesale prices both at Calcutta and Bombay brings to us an important conclusion that side by side with an increase in currency and consequent upon the failure of production to keep pace with the monetary expansion, the inflationary tendency is in progress. The fact is further supported that the above indices are only of the wholesale prices while in the retail market we have to pay much more. The time-lag noticed in price index numbers may be accounted for by the fact that the velocity of circulation of money has been reduced to some extent; otherwise the rise would have kept pace with currency expansion. Part of the money has been hoarded by

individuals and commercial firms merely as a safeguard against any emergency.

From April, 1942 to January 1943 the notes in circulation have risen from Rs. 410 crores to Rs. 578 crores, a rise of 40% in the nine months and a rise of 29·5% in currency circulation, if we assume that the rupee coins in circulation have remained the same. As against this we may also see the index number of prices at Calcutta which has risen from 153 in March 1942 to 238 in December a rise of 55%. The production figures are not available—still we cannot expect them to have risen much higher than by two to three percent. Some of the industries had reduced working-days owing to public disturbances.

We may now briefly summarise the whole situation. Since March 1939 upto December 1942 the currency has expanded by about 146% the production has increased by 15%, and the prices have risen by 138%, Since some money is lying in hoards and I think, it may be estimated at Rs. 100 crores, still the active circulation remains 113%. All these make the broad fact of inflation quite evident. Side by side with it are also other factors exercising their influence on the rise of prices. Hoarding of the commodity by the public is very important. The producers class is withholding to expect higher rates. Dealers are hoarding to sell in black markets, and consumers are stocking to avoid any future troubles and inconveniences. War purchases, besides heavy exports of foodstuffs and cotton-goods at a time when their scarcity is being felt have aggravated the situation. The imports have been curtailed. The distributional machinery and price control measures have completely failed.

Flight from money to a small extent, is already in evidence for the last few months. The strong tone of the bullion and share markets even with unfavourable

war news may be attributed to this factor. The velocity of demand deposits has fallen as shown by the Clearing House returns. There is a much more potential danger for the future that if the currency continues to increase at this tremendous speed and the flight from money assumes severe proportions the hoards may come out and the velocity of circulation might increase to aggravate the situation.

Before considering what action may usefully be taken to check the menace, let us examine the reasons for the expansion of currency, the genesis of sterling balances, and the rupee finance policy of the authorites.

The supply of money in a country can be increased in one of the three ways : It may be either through an increase in the supply of gold due to a favourable balance of trade or through an increase in the supply of money through the internal banking system in response to the needs of the trade, and lastly when a country is on an international standard or is linked to some other country's currency an increase in the external assets against which the currency is issued. In India uptil now the more important means of securing increased money supplies have been through the last channel.

The problem of currency expansion in our country has been closely linked with the accumulation of sterling balances. For a variety of reasons, our foreign assets have been increasing and on their basis note issues have been made. Since the outbreak of war India is having an excessively favourable balances of trade on private account—since April, 1939 upto September 1943, this has amounted to over Rs. 204 crores. Such a position is the outcome of the exchange control measures and restrictions coupled with the difficulties imposed by enemy action and strategy. An effective system of exchange control has been enforced and

worked by the Reserve Bank. The imports have been reduced to save shipping space and to conserve the international currency accrueing to exporters for procruing the essential war requisites. An unfavourable feature of these huge exports has been the large exports of foodstuffs and cotton goods causing a scarcity in the internal markets.

Along with increasing favourable trade balances there have been exports of gold from India to U. S. A. and silvar to U. K. The Dollar proceeds of gold were transferred to Britain and an equivalent amount of credit obtained in sterling. Indian national were encouraged to convert their foreign assets and some were requisitioned under the Defence of India Rules, The Reserve Bank was empowered to commandeer the Dollar and gold securities earned by Indians This payment for gold and Dollar securities was also made in rupees.

Then there has been an increasing expenditure by way of purchases in this country on behalf of British and Allied Governments, which has been paid for in India by rupees through expansion with sterling assets accumulating. To this may be added the contributions made on account of defence services by the British Government.

The Reserve Bank issues currency against 'ad hoc' securities and uses it for the purchase of goods and resources on behalf of the British Government which places sterling in London. The most significant fact of currency expansion being inflationary is that with the increased money incomes consequent upon large expenditure of funds by Government, there is no corresponding increase either in the supply of goods and resources directly purchased by the Government or in those of the articles of consumption of the public who find themselves with increased money incomes.

The result of all this has been an enormous increase in the sterling holdings of the Reserve Bank. The size of these may well be gauged by the following figures :

August	1939	...	59·5 crores
Average	1939-40	...	78·32 crores
	1940-41	...	129·97 crores
	1941-42	...	165·44 crores
On 1st January	1943	...	412·83 crores
	Increase	...	353·53 crores

An attempt has been made to liquidate at least a part of these sterling assets by the sterling debt repatriation scheme. Sterling securities would have shown much larger increases than this figure, had it not been due to this repatriation. India's sterling debt which was the equivalent of Rs. 646 crores in March 1939 had declined to Rs. 180 crores in March 1942, and during the course of the current year, this scheme would result in eliminating the remaining sterling obligations of the Government of India by March 1943.

We may refer here to the procedure followed in repatriating the sterling debt. The holders of such debts are paid off in sterling by Reserve Bank. Rupee counterparts of the debt so paid off are issued in India, but this is not necessarily happening. The rupee counter parts my be cancelled or taken by the public or by the Reserve Bank of India. In fact all of these have happened. To this extent the repatriation has had the indirect effect of contracting the currency in circulation. But whatever such contraction may have caused has been more than offset by the increase in currency on the basis of sterling resources. As Prof. Vakil has pointed out, in 'The Falling Rupee'.

" Simultaneously with the repatriation of sterling debts a beginning was made towards the increase in

the note issues. Part of the sterling at the disposal of the Government of India in London was invested in sterling securities of British Government and these were transferred in the first instance to the credit of the Government of India who were in a position to acquire further supplies in the market with the help of the new purchasing power."

The significance of these financial developments is that India has acquired a new status as a creditor nation. It has its importance for the present and future. As there is no more sterling debt left now to repatriate and no decision seems to have been taken as yet to repatriate other sterling liabilities—of Port Trust, Municipalties and public utility concerns—let alone the commercial investments, it is feared that the Government of India may freely resort to expand the note issue on the basis of increasing sterling securities. Therefore the problem of their disposal and their sterilisation so as to avoid any expansion is very important.

Apart from this method of rupee finance there is, another method resorted to by the Government of India. This is the issue of notes by Reserve Bank against Treasury Bills of the Government of India. This is the easiest and most tempting device. An issue of notes against them is the creation of purchasing power in favour of the Government against the I. O. U. This type of note issue has been described as "inflation in its most naked form." The relative section limiting the size of rupee securities has been amended in February last. This has made possible for the Bank to hold treasury bills of much larger amount than before.

All these factors causing an expansion in the volume of money in circulation unaccompanied by a corresponding rise in production have brought such a severe rise in prices and costs of living. Since the war, the Calcutta index number of commodity prices has

risen by 106 points while the Bombay figure is even higher—over 125 points during the same interval. The rise in the costs of living index also is as marked, that in Bombay recording nearly 75 points.

The League of Nations in their October nnmber of monthly bulletin of statistics have shown the trend of prices in some countries during past one year.

Country.	1941-42. First Six Months.	Second Six Months.
Canada	4·2 %	2·0 %
U. S. A.	6·3 %	2·0 %
Japan	6·0 %	1·9 %
Germany	1·2 %	1·2 %
U. K.	3·0 %	0·7 %
India	3·8 %	23·6 %

While in all other countries, the percentage of increase has been checked, in our country it has been rising in immense proportions. The other countries, most of them belligerent, inspite of colossal war expenses and heavy budgetary deficits, have been able to keep the inflating tendencies under control. Indeed the modern technique of economic controls and restriction schemes has been able to check the menace of rising prices, but in our country their piece-meal working and ineffective enforcement have all aggravated the situation.

The situation is fraught with serious economic consequences. If the inflationary tendency is not checked immediately with proper care, we may find ourselves plunged in a worse state of economic chaos. Inflation seems to have developed into what is known as 'galloping inflation.' It would cause a great harm to the economic living of a large number of people who find themselves suddenly reduced to poverty and want. Every rise in price means a fall in the value of rupee.

The persons with fixed income groups—salary earners and workers, find their income though same or even greater in terms of money units, but much reduced in value. The higher wage levels leads to more spending resulting in a more rise in prices. The other groups of fixed income have to rely on past saving, if any. Numerous contracts and transaction entered into lose their value because of inflation. The high prices of food stuffs will lead to an increase of malnutrition. To the cultivator the benefit of higher prices would have been if he had, had not to pay much more for his requirements than he realised by way of higher prices for his produce. This will be the short-term effect. In the long run an economy with a heavily inflated currency in circulation will experience the deepest slump when war conditions and so called 'prosperity' disappear. It will particularly effect the savings of the middle and lower classes.

REMEDIES:—Our problem, therefore, is how to reduce the purchasing power from the public, if production cannot keep pace with the growing money income. The response to the Government loans has been so far very poor. The third Defence Loan even after remaining for five months on the tap could hardly attract Rs. 24 crores, the others having attracted much more. What a poor show this make will be evident if we compare the weekly average of similar savings in the U. K. of £30 millions. We will therefore examine the methods whereby the menace of inflation can be checked—considering, the correct methods of rupee finance to be introduced; the curtailing of purchasing power through savings, taxation and borrowings; an adequate price control and rationing policy; stabilisation of wages and incomes, and finally the measures towards increased production.

1—Sterling Assets and Rupee Finance—Under this problem we will examine the disposal of sterling bal-

ances which are speedily accumulating and their sterilisation to avoid any expansion in currency. We will see the correct methods of securing finance to pay for the British and allied expenditure and purchases in India. In this connection we should take a lesson from the financing of British purchases in U. S. A. before the Lease and Lend arrangements came into force. The British Government in that case mobilised the individual holdings of the British citizen in U. S. A. and used them as cover against their purchases. The same expedient can be successfully followed in our case. Instead of following this natural process of paying us in the available assets the unnatural process of sterling accumulation is followed leaving on the part of the Government of India to find the necessary rupee finance. The Indian investor will be more willing to purchase scrips relating to British Indian holdings, than they are inclined to purchase Defence Bonds. The total British holdings stand at some Rs. 500 crores, and they will provide ample cover for the liquidation of our burden as well as a correct method of rupee finance. The Reserve Bank has all through adopted a passive policy. In its last report it observed that the remedy for any inflationary tendency that the expansion of currency might have, must take into consideration the causes which are producing the increased demand for currency and that in present circumstances are not amendable to any action which the Reserve Bank can itself take.' Surely it was its business to point out the dangers inherent in such a policy and ask the Government to adopt a clear-cut policy in the country's interest.

One of the suggestions for securing rupee finance on account of Allied war purchases and expenditure, is the raising of the loans on behalf of the foreign governments but it hardly seems possible to make such loans successful when the Government of India finds it diffi-

cult to raise them for itself. The Dollar resources or gold are not possessed by the Britishers themselves and so this form of payment is not possible.

There is no financial wisdom in financing the war all through by a 3 % Bank Rate. This rate should not be taken as conventional and adhered to too strictly. The situation requires a bold and energetic step. There is the need to revise under the changed circumstances the cheap money policy followed so far, and attract the huge funds lying idle by breaking the market-resistance. The Rupee finance should in this way be secured from the existing resources and additional paper money should be avoided. A rise in Bank Rate will enable the Government to raise loans in much larger proportions. The Treasury Bills require to be made more attractive. They will cater for liquidity. Unfortunately, the Reserve Bank is holding a large part of them without any concrete open market policy. The Treasury Bills should be passed to the public and greater control over the market should be exercised. Te a great extent, the currency expansion arising out of Allied purchases can be prevented in this way. In U. K. the expansion, though it has been far slower than here still, it is viewed with considerable anxiety in financial quarters. A reduction in the note issue or a temporary stoppage will no doubt ease the situation. It will give a sense of confidence in currency notes.

So far as the disposal of sterling credits is concerned, the problem has been taxing the mind of the public and the commercial community for a long time in view of the alarming pace at which they are accumulating and are bound to accumulate in future. We have become a creditor nation; still the methods of settling the disposal of these credits are by no means in the hands of popular representatives. Their utilisation in the interest of the country is most essential.

The question arises, whether it is advisable to hold such large balances in the securities of a country. It must be noted that the Central Banking assets of a country should be kept perfectly safe and free from any likely depreciation in their value. On the face of it, such a large percentage of assets in the currency of a foreign country does not seem justifiable. Moreover, the future of sterling is not secure, for the various war commitments have gradually wiped out British foreign holdings and Britain will face a serious deficit in its balance of payments in the post-war period. Sterling would no longer remain as strong a currency as it has been in the pre-war years. The other questions relating to a reasonable sterling portfolio are to be determined by the the average Reserve Bank holdings before the war, their proportion to total currency notes that will be outstanding; and the sterling obligations that India has to make year after year. We may give a maximum figure for their to Rs. 100 crores.

Still we are left with a considerable surplus amounting to over Rs. 340 crores. The best we can do is to utilise at first instance, the repayment of such sterling securities issued on behalf of semi-government institutions like the Port-trust, Municipal Corporations and public utilities. All these will come to Rs. 175 to Rs. 200 crores. After these must come the liquidation of British commercial assets in the country. A certain section of the British Press has been urging for the free gift or loans. The question can come, logically speaking, only after liquidation has taken place.

The other alternatives are the purchase of capital goods and machinery for purposes of our industrial development, and the promotion of key industries. It is suggested, therefore, that as much as shipping space may permit, the plants and equipments should be allowed to be brought to India. Australia has developed

its industries by obtaining plants and machinery. The operation of powerful vested interests has stood in our way and golden opportunities for our industrialisation have been missed. In any case for their safety and future security the sterling assets should be fixed in terms of index figures of internationally traded commodities. Then there must be the fullest assurance from Britain that it should undertake to supply India with capital goods, which the latter thinks it will require for increasing her industrial development in postwar years. Also India's ability to purchase in the best market should not in any way be affected.

II. The other line of attack is the checking of the rate of spending by curtailing money-incomes. Taxation and voluntary loans from the public are the best means to that end. But the recent adoption of Keynes' compulsory saving scheme indicates another significant method. The system envisaged that if as a result of a Government expenditure the lower income groups have got extra purchasing power, that purchasing power can be safely taxed. It would not only not involve any loss to the income groups concerned, but will confer positive benefits on the country as a whole by avoiding inflation. The last year's budget made such provisions in the income-tax payments in this country, for instance, an option was given to new assessees for income-tax under the lowered exemption limit to escape the liability by depositing an amount approximately 1¼ times the amount of tax assessed in the P. O. Defence Saving Bonds, such deposits being not withdrawable till one year after the war.

Germany has devised new methods to 'freeze' the increased purchasing power. It has established 'Iron Saving Accounts' and 'plant equipment accounts' — the first one for wage and salary earners and the latter for industrial employers. It permits workers to open

special 'Iron Saving Accounts' at their banks for regular deposits of fixed amounts — deposits to be frozen until after one year of war. It is voluntary but offers large tax benefits. Under 'plant-equipment accounts' provisions are made for deposit at the Finance Ministry of liquid reserves for replacements and repairs to the extent of ½ of the 1940 tax value of depreciable plants and equipment. These accounts will be frozen and will bear no interest until after the war. The advantage will be granted for equipment purchases after the war with these frozen funds. Thus much of the excessive purchasing power is sterilised.

In our country, apart from checking the further expansion of currency, we must immobilise much of the new money. There is the necessity of devising more important lines of taxation.

Much heavier and fuller taxation of excess profits must be levied. It is as high as 100 p. c. in England. A lowering of the limit of excess profits and increase in the rate with suitable savings scheme can be effectively planned. Compulsory borrowing should be made from all incomes after allowing for a minimum standard of living. It is easy to make it applicable on the incomes of salaried classes by any system of compulsory levy but it is difficult to operate when it is to be applied to agriculturists who form a majority of the earning population. Therefore, an active savings campaign must be carried on by adopting suitable methods and a proper organization must be established for this purpose. The cooperative movement can be instrumental in increasing the savings through various thrift devices. Defence loans and Post Office Saving plans require to be made more and more popular. Close cooperation of the financial institutions with the public requires to be maintained. The banks must be encouraged to develop their scheme so as to cultivate

the spirit of saving by issuing thrift bonds and other devices. A part of the payments to contractors can be sterilised by giving favourable future terms and making part payments in Defence Bonds. Plans for deferred bonuses to labourers have also been suggested. They can be suitably supplemented by including in their scope the provision for various social insurance schemes. It is essential that if small savings are to be successfully tapped, the prices of necessaries must be kept under control and the cost of living must not be allowed to rise.

These methods are quite important, but still they have two deficiencies; Firstly, they are not instrumental in affording any assurance that spending will be curtailed in the most necessary direction, *i.e.,* in the lines where shortage is most developing. Secondly, as they are indirect means of reducing spending, they are not fully effective. For example a person may subscribe to a war loan or pay taxes out of his past saving balances.

III. The other line of attack is to restrict spending directly by rationing and price control. They are inevitable supplement to the more general methods detailed above. The whole problem centres on the control of supplies and distribution. Control of prices has two aspects—first determination of prices and secondly, their enforcement. For goods which are more scarce and whose supply is essential for individual welfare, rationing is resorted to. Rationing aims at controlling demand and effecting equitable distribution.

In India the evolution and administration of price control has been the result of a haphazard policy. The price control policy will defeat its object if it pays attention only on price fixation and that too only of a small number of commodities, and does not recognise the other conditions of war economy. The situation

has become grave as can be seen from the enormous rise in prices, the ineffectiveness of the prescribed limits, the incapability of the authorities to enforce them, and the extent to which the public has to take resort to the black market. After more than three years of war there does not seem to have resulted any well-planned and coordinated policy. Conferences after conferences have been held and the financial aspect of the war economy has not been taken into account. The different provinces and States have been dealing with the problems in their own way. While the Central Government has withdrawn orders of wheat control, the U. P. Government is still following it. The distributional machinery has proved to be very ineffective and regional shortages have become the every day feature. Controls have in any case served Government purposes, for being the biggest consumer it is thereby able to get its requirements at the controlled rates.

All these considerations make us think to have a thoroughly planned structure in this sphere along with other anti-inflationary measures. It is necessary fundamentally to accept the significance of the financial aspect. We have in working in U. S. A. President Roosevelt's 'seven point programme' in which he has proposed a heavy increase in taxation to limit individual and corporation profits—ceilings on prices which consumers, retailers, wholesalers, etc., pay for the goods they buy—stabilization of wages and farm prices—diversion of earnings from unessential purchases into savings—rationing and discouragement of credit and instalment buying.

Inspite of the obvious difficulties in our case—the illiteracy and ignorance of our masses, the production machinery being carried on by agriculturists scattered in villages, the loose organisation of wholesale and retail trades, absence of consumer's associations the

inefficient and incapable administrative machinery and above all, the lack of popular support for the Government—, we have to face the situation. It is necessary for controls to be made efficient and effective. They must aim at bringing the price level within the reach of a majority of persons. The speculative influences and increasing monetary expansion should not be allowed to lead to a further rise in prices of daily requirements. The whole policy requires to be tackled in a scientific way. The coordination and cooperation of the different regions, mobilisation of all distributive channels, the inclusion of a wider number of articles, accompanied with rationing in cases where the supply is more scarce, are urgently needed. The effectiveness of control measures is to be made a reality. The state must take proper control over supplies and effectively distribute them. Stringent action against black markets and hoardings are necessary. The essential condition is to create a sense of confidence in the public minds that goods at controlled prices will be forthcoming. This would do away with most of the individual hoardings.

Along with this policy of price control and rationing is the necessity of stabilising wages. The Government of India themselves took the initiative in increasing them through dearness and other allowances. This was also adopted by industrial employers. These allowances led in a vicious circle of higher costs of production, higher prices and so on. Some increase at the outset was perhaps unavoidable to attract labour and intensify production in war industries, but unfortunately this had to be continued largely because of unregulated costs of living. The Government of India themselves have permitted an increase in the price of fuel, transport and labour and these are largely the items entering in the costs of production and costs of

living. As the 'Economist' has argued "It is impossible to stabilise the price structure by pegging merely sections of it, and the need in every country that is faced with inflationary consequences of wartime scarcity is an all-in control over strategic points". Other countries have carefully tackled the situation. The imperative need is for an intensive control by stabilising prices and wages. It is possible to fix wages at a slightly higher level than the pre-war prices. When Government control over costs of living becomes effective, wages will be easily capable of stabilisation.

The most desirable and the least painful approach lies in the attempt to increase and maintain the supply of civilian goods and services. The commodities are becoming scarce every day. The important way to solve the problem is to step up production. Neither industry nor agriculture is working to full capacity and steps are necessary to increase their supplies. In this connection we have to make the 'Grow more food campaign' a basis for crop-planning on a nation-wide scale. We have to give impetus to the drive through active propaganda and publicity, supply of seeds, fertilisers and technical advice. So for the programme has not been successful. Also there is the necessity of obtaining plants and machinery whatever shipping space may permit and utilise it for increased production. With the development of large scale industries, the problem has been of obtaining necessary plants and equipment from abroad and the technical personnel.

The vested interest and the apathetic attitude of the Government have been a hinderance in our industrial progress. In an increased production drive, we should also consider the desirability of successfully establishing and encouraging small scale and cottage industries which offer a fair chance of success in these days. There is a vast scope in this direction and the

state should help artisans with finance, technical research and cheap power facilities. Some of these industries will occupy an important place in any scheme of well-organized planned economy in the post-war period.

We may sum up : With an expansion of currency and failure of production to keep pace with it, a severe inflation is in progress. It requires to be checked and we should attack it with all measures directly and simultaneously—correct methods of rupee finance, sterilisation of sterling assets to avoid expansion in currency, checking increase in currency circulation, increased savings—campaign and curtailing expenditure through taxation and borrowing; price control and rationing ; stabilisation of wages and incomes ; and the increase of production. The absence of a National Government to direct the country's war efforts successfully is a great handicap. It is most opportune for the National Government to be established and control the economic destiny in the interests of the country and the United Nations.

Printed by H. P. Bajpai, B.A., LL.B., at the Krishna Press,
26, Hewett Road, Allahabad
and Published by Shambhoo Nath Agarwal,
Master of Ceremonies Business Bureau, Allahabad.